

Message Text

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SUBJ: ITALIAN EXCHANGE MARKET CLOSURE

REF: ROME 971 NOTAL

1. THE FOLLOWING IS QUOTED FROM ITALIAN NEWS SERVICES:

2. QUOTE: DECISION TO CLOSE THE EXCHANGE MARKET - ROME,
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JANUARY 20. AT THE CONCLUSION OF A MEETING AT PALAZZO CHIGI,

THE FOLLOWING STATEMENT WAS ISSUED: THE MONETARY AUTHORITIES ON THIS DATE HAVE ORDERED, WITH THE CONSENT OF THE PRESIDENT OF THE COUNCIL, THE TEMPORARY CLOSURE OF THE EXCHANGE MARKET. THIS MEASURE, ANALOGOUS TO THOSE TAKEN THREE YEARS AGO, FROM FEBRUARY 10 TO 13 AND FROM MARCH 2 TO 19, 1973, IN THE FACE OF THE INTERNATIONAL MONETARY CRISIS THAT LED TO THE GENERALIZATION OF THE SYSTEM OF FLOATING RATES, HAS BEEN ADOPTED BECAUSE OF STRONG SPECULATIVE LOWS OF SHORT-TERM FUNDS.

3. ACCORDING TO PROVISIONAL DATA NOW AVAILABLE, IN 1975 THE CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS CLOSED WITH A DEFICIT OF ABOUT 100 BILLION LIRE COMPARED WITH A DEFICIT OF 5,100 BILLION LIRE IN 1974. THE TRADE BALANCE ON AN F.O.B. BASIS WAS IN DEFICIT BY 800 BILLION LIRE COMPARED TO 5,500 BILLION LIRE IN 1974; OF THIS, THE TRADE BALANCE OF NON-PETROLEUM PRODUCTS WHICH WAS ALSO IN DEFICIT IN 1974 IS NOW IN SURPLUS BY 3,100 BILLION LIRE. THE CONSIDERABLE IMPROVEMENT OF THE CURRENT ACCOUNT IS THE RESULT OF A STRONG CONTRACTION IN VOLUME OF IMPORTS (ABOUT 12 PERCENT) AND FROM A SLIGHT INCREASE IN THE VOLUME OF EXPORTS (ABOUT 12.5 PERCENT), EVEN IN THE PRESENCE OF A STRONG FALL IN WORLD TRADE.

4. CAPITAL MOVEMENTS, IN DEFICIT BY ABOUT 1,500 BILLION LIRE, ARE THE RESULT OF AT LEAST ONE HALF BEING REPAYMENTS OF COMPENSATORY LOANS AND THE OTHER HALF, OCCURRING ALMOST EXCLUSIVELY IN THE SECOND HALF, REPAYMENTS OF COMMERCIAL IMPORT CREDITS PREVIOUSLY GRANTED, AS WELL AS A REDUCTION IN FOREIGN CAPITAL INVESTMENTS. THE BANKS HAVE IMPROVED THEIR FOREIGN POSITION BY ABOUT 500 BILLION LIRE.

5. AS A CONSEQUENCE OF THESE MOVEMENTS, THE OFFICIAL RESERVES WERE REDUCED BY ABOUT 1,150 BILLION LIRE, WHICH INCLUDES EXCHANGE ADJUSTMENTS AND THE MEDIUM AND LONG-TERM POSITION OF THE ITALIAN EXCHANGE OFFICE OF ABOUT 500 BILLION LIRE.

6. NET INTERVENTIONS ON THE EXCHANGE MARKET DURING THE MONTHS OF NOVEMBER AND DECEMBER 1975, WHICH AMOUNTED IN THEIR ENTIRETY TO 803 MILLION DOLLARS, ARE ATTRIBUTABLE FOR THE MOST PART TO AN INCREASE IN IMPORTS CONNECTED WITH INVENTORY RESTOCKING.

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7. IN THE FIRST 20 DAYS OF JANUARY, NET INTERVENTION ON THE EXCHANGE MARKET IN DEFENSE OF THE EXCHANGE RATE OF THE LIRA, WHICH REMAINED NEARLY CONSTANT FOR ALL OF 1975, WAS 528 MILLION DOLLARS.

8. THE MOST RECENT DEVELOPMENTS REVEAL A PROGRESSIVE INTENSIFICATION OF SPECULATIVE MOVEMENTS, WHICH DURING THE LAST FEW DAYS HAVE ASSUMED UNACCEPTABLE DIMENSIONS. FOR THESE REASONS, PENDING A

PROFOUND EXAMINATION OF THE SITUATION, IT WAS FELT THAT THE TEMPORARY CLOSURE OF THE MARKET WAS PREFERABLE, AT SUCH A DELICATE TIME, TO THE CONTINUATION OF INTERVENTION WHICH WOULD HAVE ABSORBED RESERVES WHICH ARE NEEDED TO GUARANTEE A MARGIN OF SAFETY FOR ECONOMIC RECOVERY.

9. AT THE MOMENT IN WHICH THIS MEASURE WAS DECIDED, ITALY HAD AT ITS DISPOSAL, IN ADDITION TO GOLD STOCKS OF 3,482 MILLION DOLLARS, VALUED AT 42.22 DOLLARS PER OUNCE, CURRENCY RESERVES IN THE AMOUNT OF 591 MILLION DOLLARS, AS WELL AS LINES OF CREDIT WITH THE INTERNATIONAL MONETARY FUND AND CENTRAL BANKS, THE USE OF WHICH ARE SUBJECT TO CONDITION.

10. DECISION TO CLOSE THE EXCHANGE MARKET - ROME, JANUARY 20. THE GOVERNMENT DECIDED THIS EVENING TO CLOSE THE EXCHANGE MARKET. AT THE MEETING, DURING WHICH THE MEASURE WAS ADOPTED, WERE PRESENT--BESIDES THE PRESIDENT OF THE COUNCIL MORO AND VICE PRESIDENT LA MALFA--MINISTERS ANDREOTTI AND COLOMBO, THE GOVERNOR OF THE BANK OF ITALY BAFFI, DIRECTOR GENERAL OF THE BANK OF ITALY OSSOLA, AND THE DIRECTOR GENERAL OF TREASURY VENTRIGLIA. THE MEETING LASTED FROM 10:00 P.M. TO 1:30 A.M. AT ITS CONCLUSION, MINISTER COLOMBO SAID THAT THE DECISION WAS MADE NECESSARY BECAUSE IN THE FIRST 20 DAYS OF JANUARY, 516 MILLION DOLLARS WERE SPENT TO SUSTAIN THE MARKET.

11. ROME, JANUARY 20. MINISTER OF TREASURY COLOMBO SAID BESIDES THAT THE CLOSING OF THE EXCHANGE MARKET BECAME NECESSARY IN ORDER TO STOP THE HEMORRHAGE OF DOLLARS WHICH ITALY WAS CONSTAINED TO SPEND TO SUSTAIN THE LIRA. COLOMBO ADDED THAT HE INFORMED HON. DE MARTINO, SECRETARY OF THE PSI, IMMEDIATELY OF THE SITUATION AND OF THE CONSEQUENT NECESSITY TO TAKE THE DECISION TO CLOSE THE EXCHANGE. THE MINISTER OF TREASURY OBSERVED THAT HE WAS UNABLE TO CONTACT HON. TANASSI, SECRETARY

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OF THE PSDI, THIS EVENING BUT WILL DO SO TOMORROW MORNING. THE EXCHANGES WILL REMAIN CLOSED--CONCLUDED COLOMBO--AS LONG AS THE MONETARY SITUATION IS UNCHANGED. UNQUOTE.VOLPE

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